

STATE OF SOUTH CAROLINA)

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VERIFICATION

)

COUNTY OF UNION)

PERSONALLY appeared before me, Paul W. Inman, who being duly sworn states:

That he is the Business Controller of Lockhart Power Company; that the testimony attached hereto as Testimony of Paul W. Inman is based upon information that he believes to be true and correct.

Paul W. Inman
Paul W. Inman

Sworn to before me this
25th day of January, 2007

Deanna Burns
Deanna Burns

My Commission Expires: June 22, 2010

**Testimony of Paul W. Inman
Docket Number 2007-33-E**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A. Paul W. Inman, Lockhart Power Company, Post Office Box 10, Lockhart, South**
3 Carolina 29364.

4 **Q. PLEASE STATE YOUR PRESENT POSITION.**

5 **A. I am Business Controller of Lockhart Power Company.**

6 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL**
7 **EXPERIENCE?**

8 **A. I hold a Bachelor of Arts degree in Business Administration from Limestone**
9 College. I also hold a Master of Business Administration degree from the
10 University of South Carolina. I was employed by Lockhart Power Company in
11 1972 as a Management Trainee. Later that same year I was promoted to
12 Business Controller of Lockhart Power Company.

13 **Q. WILL YOU BRIEFLY SUMMARIZE YOUR DUTIES AND RESPONSIBILITIES**
14 **WITH LOCKHART POWER COMPANY?**

15 **A. I have complete responsibility for all accounting and financial reporting aspects of**
16 Lockhart Power Company.

17 **Q. WOULD YOU PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY?**

18 **A. I will discuss certain accounting proforma adjustments made to the test year in**
19 this filing, and will discuss the deferred revenue aspect of our Purchased Power
20 Adjustment Clause.

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1 **Q. WOULD YOU PLEASE DESCRIBE CERTAIN ACCOUNTING PROFORMA**
2 **ADJUSTMENTS THAT WERE MADE TO THE TEST YEAR IN THIS FILING?**

3 **A.** Lockhart Power Company has made adjustments to certain test year expenses
4 and rate base balances to either normalize these costs, adjust for known
5 changes, or to adjust abnormal expenses to an appropriate annual level.

6 **Electric Plant Adjustments**

7 In order to use a reasonably current level of electric fixed assets in the
8 development of this filing, the Company has included in its rate base Electric
9 Plant in Service and Construction Work in Progress as of September 30, 2006.

10 In addition, adjustments were made to Electric Plant in order to account for
11 several significant capital-related changes that occurred or were committed to
12 after September 30, 2006. For example, the Company has made a binding
13 capital commitment of \$350,000 for the purchase of a Hydroelectric Qualifying
14 Facility (QF) since the September 30, 2006 cut-off date. The Company has also
15 made both capital expenditures and firm commitments to make additional capital
16 expenditures totaling \$1,624,081 for diesel peaking plant additions since the cut-
17 off date. (SEE PROFORMA – ELECTRIC PLANT WORKSHEET)

18 **Depreciation Expense Annualization**

19 The Company has made a proforma adjustment to annualize its Depreciation
20 Expense, because the test year actual depreciation expense does not consider
21 the effect of certain events that should be taken into account. First, provisions for
22 depreciation on capital expenditures made during the test year occurred as the

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1 assets went into service throughout the year. This resulted in only a partial year
2 of depreciation expense in the test year on those additions. Second, plant in
3 service and accumulated depreciation as of September 30, 2006 are now
4 included in rate base. Therefore, annual depreciation expense attributable to
5 those capital additions occurring between December 31, 2005 and September
6 30, 2006 must also be included. Finally, the small hydroelectric plant purchase
7 and diesel peaking projects, the costs of which were either spent or committed to
8 be spent after September 30, 2006, were also included in rate base. Therefore,
9 depreciation expense has been herein normalized to reflect a whole year of
10 depreciation on the total plant included in rate base. Depreciation and
11 amortization expenses per books for the test year amounted to \$1,059,663.
12 Considering the above adjustments to plant, depreciation and amortization
13 expenses were recalculated, applying annual rates to the adjusted ending plant
14 balances. This resulted in total depreciation and amortization expenses of
15 \$1,189,028. Test year expense is therefore adjusted by \$129,365. (SEE
16 PROFORMA - DEPRECIATION & AMORTIZATION WORKSHEET)

Property Tax Expense Annualization

17
18 Property taxes for the test year were understated on a prospective basis due to
19 three levels of changes in capital expenditures, for which no property taxes were
20 included. These were as follows: (1) capital expenditures made during the test
21 year (2) capital expenditures made between December 31, 2005 and September
22 30, 2006, and (3) capital expenditures either made or committed to be made after

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1 September 30, 2006. Actual property tax expense in the test year was based on
2 plant in service as of December 31, 2004. Therefore, property taxes attributable
3 to the above three levels of capital expenditures should be added to test year
4 expense to normalize the cost. A calculation of property-related taxes using the
5 revised investment level yields an adjusted total annual cost of \$626,595. Actual
6 property-related tax expenses included in the test year amounted to \$551,030.
7 Test year expense is therefore adjusted by \$75,565. (SEE PROFORMA
8 PROPERTY-RELATED TAX ADJUSTMENT WORKSHEET.)

9 **Pacolet Hydro Plant Operating Expense**

10 As referred to above under Electric Plant Adjustments, the Company has entered
11 into a contract to purchase a hydroelectric PURPA Qualifying Facility. This
12 facility will reduce the Company's purchased power expense by the value of the
13 power generated. The operation of this facility will incur certain ongoing
14 operating and maintenance costs. Based on historical cost data, these costs are
15 projected to be \$56,931 annually. Test year expense is therefore adjusted by
16 \$56,931 to reflect the inclusion of these costs. (SEE PROFORMA – PACOLET
17 HYDRO PLANT OPERATING EXPENSE WORKSHEET)

18 **Diesel Peaking Operations Expense**

19 As referred to above under Electric Plant Adjustments, during 2006 the Company
20 installed diesel generation in order to reduce its Purchased Power expense by
21 peak shaving. The operation of this facility will incur certain ongoing operating
22 and maintenance costs. These costs are projected to be \$130,057 annually and

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1 are comprised mainly of fuel, preventative maintenance and insurance expenses.
2 The test year expense is therefore adjusted by \$130,057 to reflect the inclusion
3 of these costs. (SEE PROFORMA - DIESEL GENERATOR OPERATING
4 EXPENSE WORKSHEET)

5 Purchased Power Expense Adjustment

6 An adjustment has been made to Purchased Power Expense to include the effect
7 of three structural changes that have been made that impact this account. First,
8 effective January 1, 2006, the Company began compensating one of its power
9 suppliers, a Qualifying Facility (QF), for its total avoided cost of purchased power
10 that otherwise would have been purchased from Duke Energy. Until that date,
11 the Company had paid the QF only for the energy provided. As of January 1,
12 2006 it began paying for the demand component as well. The effect of this
13 additional payment, as applied to the test year, would have resulted in an
14 increase in purchased power cost of \$38,004. Second, the Company, as
15 indicated previously, installed diesel peaking units in order to reduce its cost of
16 purchased power. Calculations made of peak shaving opportunities that
17 occurred in the latest three years yielded an annual reduction of purchased
18 power cost of \$630,316, had these units been in place during that time. Third,
19 the Company has entered into an agreement for the purchase of a hydroelectric
20 plant, as indicated previously. This plant acquisition is for the purpose of
21 reducing the Company's purchased power expense. Calculations of the
22 expected value of the generation opportunity that was present in the test year

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1 yield an annual reduction in purchased power expense of \$138,020, had the
2 Company owned the plant during that period. The net effect of these three
3 changes is an annual reduction in purchased power expense of \$730,332. The
4 test year expense is therefore reduced by this amount. (SEE PROFORMA –
5 PURCHASED POWER EXPENSE WORKSHEET)

6 **Wage Increase Annualization**

7 A wage increase of 7.8% became effective on all hourly employee earnings on or
8 after November 27, 2005. A wage increase of 4.0% became effective on all
9 hourly employee earnings on or after December 3, 2006. A calculation was
10 made to determine the effect of including the 7.8% increase for the whole test
11 year, which amounted to a gross additional expense of \$54,555 for the 47 weeks
12 from January 1, 2005 to November 27, 2005. A rate base increase of \$2,586
13 was made for the capitalized portion of the wage adjustment. The second wage
14 increase was made in the year following the test year, but is also herein adjusted
15 to account for its annual impact as well. The annual effect of this second
16 adjustment amounts to gross additional expense of \$33,515 for the 52 weeks of
17 the test year. A rate base increase of \$9,541 was made for the capitalized
18 portion of the wage adjustment. The gross increase in expense for both
19 adjustments amounts to \$88,070 annually. The total increase to rate base for
20 both adjustments amounts to \$12,127. (SEE PROFORMA - WAGE INCREASE
21 ANNUALIZATION WORKSHEET)

22 **Fringe Benefits Annualization**

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1 The gross amounts of the two wage increase annualization adjustments as
2 described above are \$57,141 and \$43,056 respectively, for a total of \$100,197.
3 Variable fringe benefits costs during the test year amounted to 14.19% of direct
4 earnings or \$14,218. This amount is therefore reflected as an adjustment to
5 expense. (SEE PROFORMA – FRINGE BENEFITS ON ANNUALIZED WAGE
6 ADJUSTMENTS WORKSHEET)

Rate Case Expense Amortization

8 Professional services costs incurred in connection with this rate application
9 amount to \$58,800. This amount is herein amortized over 3 years, or \$19,600
10 per year as an increase to expense. However, the test year also included actual
11 prior rate case expense amortization of \$16,505. This amortization ended
12 November 30, 2005. Consequently, the proforma adjustment is for only the net
13 additional annual rate case expense of \$3,095 (\$19,600 - \$16,505). (SEE
14 PROFORMA – RATE CASE EXPENSE WORKSHEET)

Management Transition Expense

16 During 2006, a management transition occurred at Lockhart Power Company
17 upon the retirement of Mr. L. S. Anderson, General Manager on March 31, 2006.
18 Mr. Anderson was replaced by Mr. Bryan D. Stone, Business Manager. The
19 Company incurred certain costs associated with this transition. These costs
20 included personnel recruiting consultant fees, candidate relocation and travel
21 costs and interim consultant fees associated with the transition. These costs
22 totaled \$86,056 and occurred after the 2005 test year. These transition costs are

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1 herein amortized over a 3-year period by the inclusion of an adjustment to
2 expense of \$28,685. (SEE PROFORMA - MANAGEMENT TRANSITION
3 EXPENSE WORKSHEET)

4 **Q. WOULD YOU EXPLAIN WHY THERE WILL BE A DEFERRED BILLING OF**
5 **PURCHASED POWER EXPENSE AT THE TIME NEW RATES TAKE**
6 **EFFECT?**

7 **A.** Lockhart Power Company's Rate Schedule O provides for the pass-through to
8 the customer of any increases above or decreases below the base cost of
9 Purchased Power per KWH sold. The cost of Purchased Power is calculated for
10 each month and compared to the base cost of Purchased Power that is included
11 in the Company's base electric rates. Any variation in the monthly Purchased
12 Power cost from the base amount (after being adjusted for gross receipts tax) is
13 passed on to the customer during the following month. This adjustment can be
14 either positive or negative. If positive, the customer will receive a charge on the
15 billing. If negative, a credit will be applied to the billing. At the time new rates
16 take effect, there will be a 1-month over or under recovery of Purchased Power
17 cost under the old rates that will be trued up in the following month.

18 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A Yes.**